

CONSIDER THIS



How can I determine the plan maximum for Flexible Spending Account (FSA) short plan years?

To determine the plan maximum for FSA short plan years:

- Take the IRS maximum and divide it by 12.
- Multiply that number by the number of months in the short plan year for the prorated amount.
- That number can be rounded down to an even number if you prefer.

For example, if the IRS maximum is \$2,850 and the short plan year is three months, the equation would be:

- $\$2,850 / 12 = \237.50
- $\$237.50 \times 3 = \712.50

Dependent Care FSAs don't require you to prorate the maximum (although an employee can't elect more than the IRS maximum within a calendar year). If you don't prorate for the short plan year, employees must take that under consideration if they decide to elect the IRS maximum since:

- Funds will only be taken from payroll deductions within the short plan year. We suggest employees review their net income when determining their election.
- The election will only be eligible for services within the plan year.

Is increasing or decreasing an FSA maximum mid-year a qualifying event for current enrollees?

No. Changing the FSA maximum mid-year doesn't allow participants to make election changes. A client's plan document will show what types of events allow a participant to make changes mid-year.

On a short plan year, does a carryover require you to prorate?

No. A carryover doesn't require you to prorate. A full carryover is allowed. The carryover would apply to claims for the short plan year first. Any remaining dollars would roll over to the 12-month plan year.

Can the grace period be removed at renewal during a short plan year so a participant can enroll in a Health Savings Account (HSA)?

If you're setting up a short plan year or are currently in a plan year, removing the grace period is an option. Per IRS regulations, plan design changes can't be retroactive. This means the grace period can't be removed after the plan year ends.

If the grace period is removed, discuss it first with a benefits attorney before making any changes to what participants elected based on the initial plan rules, since those rules included a grace period. Keep participants informed by updating their plan document and Summary Plan Description (SPD) to avoid confusion for them during the process.